

March 27, 2013

The Honorable Diane Black
United States House of Representatives
Washington, DC 20515

The Honorable Danny K. Davis
United States House of Representatives
Washington, DC 20515

RE: Tax Reform Working Group on Education and Family Benefits

Dear Representative Black and Representative Davis,

On behalf of the Massachusetts Educational Financing Authority (MEFA), thank you for your leadership of the Ways & Means Committee Tax Reform Working Group on Education and Family Benefits, and, moreover, the opportunity to provide tax code reform comments. I am writing to draw your attention to the importance of Qualified Private Activity Bonds (PAB) in lowering higher education costs for thousands of families borrowing education loans.

By way of background, MEFA is a state-chartered, non-profit quasi-public authority located in the Commonwealth of Massachusetts, established in the early 1980s at the behest of colleges and universities in Massachusetts seeking a stable source of low-cost capital to assist families with the rising cost of college. MEFA plays an integral role in education financing across the Commonwealth as the authority on planning, saving and paying for college. As such, MEFA works in partnership with colleges and universities and, most importantly, directly with students and their families through MEFA's vital advisory services. College affordability is central to MEFA's work and, therefore, all MEFA loans are certified by the colleges and universities to which the proceeds are paid in an effort to ensure that families are not over-borrowing. MEFA's work with borrowers extends through the life of the loan resulting in historically low default rates. These core strengths of the MEFA loan process have contributed to MEFA's successful execution of capital markets transactions to fund MEFA loans for families that are typically lower cost than most other private lenders and well below the Federal PLUS Loan program.

For over thirty years, MEFA has relied upon the authority under the Commonwealth's tax exempt bond statute to issue securities to support MEFA's low-cost loan programs, which

fall within the federal definition of Private Activity Bonds. Issuance of MEFA's PABs to fund qualified education loans are illustrative of how broadly PABs are used to address important financing needs in American communities. We are pleased to have this opportunity to highlight the importance of PABs to underwriting higher education loans for families across the country and providing robust educational advisory services related to paying college costs. Fundamentally, education loans funded through PABs have historically provided families with a lower cost of borrowing, which has resulted in an overall lower cost of higher education. With the cost of higher education rising every year, this source of capital is an important factor to thousands of American families struggling to finance college costs. As Congress addresses deficit reduction and comprehensive tax code reform, the treatment of interest on Private Activity Bonds will likely be under consideration. We urge you to preserve the tax exemption on these important public purpose municipal bonds that provide American families with low-cost education loans.

The present treatment of PABs in the context of the Alternative Minimum Tax (AMT) has an impact on how these securities are priced in the public markets. Part of what makes a MEFA security attractive is its state and federal tax exemption. However PABs, including MEFA bonds, remain subject to exposure under the Alternative Minimum Tax. For two years following the financial crisis, Congress authorized an AMT Holiday, which provided relief from that exposure through an AMT exemption. Families financing education costs were positively impacted by Congress' action, as MEFA securities were offered in the marketplace at lower rates, resulting in considerably lower borrowing costs for families and students. Since MEFA bonds are subject to possible AMT liability, the interest rates paid to investors increase and, by extension, the cost of borrowing for families also increases. The AMT exemption during this period saved MEFA borrowers approximately 65 basis points in the cost of their education loans, a significant savings over the life of the loans through repayment.

MEFA's principal mission, as a state-chartered authority, is to provide families of Massachusetts college students with the best possible information and advice on how to manage the costs of college. Beyond MEFA's advisory services, the lending operations provide a critical resource to help families fill gaps in financing and, moreover, underwrite the important and necessary advisory and educational support offered to all families across the Commonwealth.

On behalf of the tens of thousands of families MEFA serves each year, we respectfully ask that as you consider all options and resources in reforming the tax code, you consider the broad use of PABs and the value added to the community when leveraged as a means of helping families pay for college. As part of any tax reform effort, it is critical for Congress to look at the AMT and determine whether, at this point, its provisions are overly broad and are negatively impacting the very people it was created to protect decades ago. Because MEFA securities are exposed to an AMT liability, there is a decidedly negative impact on the marketplace price and ultimately the overall cost of educational borrowing. We urge you to consider making distinctions among the various types of PABs and, moreover, acknowledge that not all issuers are alike. In doing so, we would support narrowing the scope of application of the AMT so it does not impact those securities being issued for

beneficial, community-enhancing functions such as providing financial literacy and educational financing.

Thank you for your leadership and your outreach to the public on these important policy considerations. We welcome an opportunity to discuss these important policy considerations and, moreover, the growing need for affordable financing alternatives for families struggling to pay college costs. Should you or your staff have questions or concerns, please do not hesitate to reach out directly.

Sincerely yours,

Thomas M. Graf
Executive Director
Massachusetts Educational Financing Authority